

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**JUNE 21, 2001**

<b>IN RE:</b>	)	
	)	
<b>EXTENSION OF WATER PURCHASE</b>	)	<b>DOCKET NO.</b>
<b>AGREEMENT BETWEEN TENNESSEE</b>	)	<b>00-00745</b>
<b>AMERICAN WATER COMPANY AND THE TOWN</b>	)	
<b>OF SIGNAL MOUNTAIN</b>	)	

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**ORDER APPROVING EXTENSION OF WATER PURCHASE AGREEMENT**

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This matter came before the Tennessee Regulatory Authority ("Authority") at the regularly scheduled Authority Conference held on December 5, 2000, for consideration of the application (the "Application") of Tennessee American Water Company ("Tennessee American" or the "Company") for approval of an extension (the "Extension") of a water purchase agreement (the "Agreement") between Tennessee American and the Town of Signal Mountain, Tennessee ("Signal Mountain"). Tennessee American filed its Application with the Authority on August 22, 2000.

Based upon careful consideration of the Application and the entire record in this matter, the Authority makes the following findings and conclusions:

1. The Authority approved the Agreement by Order dated August 18, 1997 in Authority Docket No. 97-01305. The Agreement is a sale-for-resale agreement.
2. The Application before the Authority seeks to extend the Agreement an additional three (3) years beginning September 1, 2000. All other terms, conditions, privileges, and obligations set forth in the Agreement remain unchanged.

3. The Authority has jurisdiction over this matter pursuant to Tenn. Code Ann.

§ 65-4-101 *et seq.* and Authority Rule 1220-4-1-.07, which states:

SPECIAL CONTRACTS. Special contracts between public utilities and certain customers prescribing and providing rates, services and practices not covered by or permitted in the general tariffs, schedules or rules filed by such utilities are subject to supervision, regulation and control by the Authority. A copy of such special agreements shall be filed, subject to review and approval.

4. As stated in the Authority's Order of August 8, 1997, under the terms of the Agreement, Signal Mountain agreed to purchase a minimum of 273,750,000 gallons per year for three (3) years at a cost of ninety-five cents (\$.95) per 1,000 gallons and to pay an additional charge if Signal Mountain's usage is below that amount. The Agreement price of ninety-five cents (\$.95) per 1,000 gallons is a nine cent (\$.09) reduction from Tennessee American's tariff rate. Like Tennessee American's other special contracts, with the City of Fort Oglethorpe, Georgia (approved by the Authority in Docket No. 97-00223) and Catoosa Utility District (approved by the Authority in Docket No. 98-00885), the Agreement is a sale for resale agreement.

5. The terms of the Agreement and the Extension, which distinguish Signal Mountain from Tennessee American's tariff customers, justify a departure from Tennessee American's tariff through a special contract. The Agreement, like Tennessee American's other special contract agreements, is a sale for resale agreement, a category that does not exist under Tennessee American's current tariff.<sup>1</sup> The inclusion of a three (3) year term of service and a minimum usage requirement further distinguishes Signal Mountain from Tennessee American's

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<sup>1</sup> Tennessee American is provided the opportunity, through special contracts, to secure new business and pursue new prospects in instances where an approved tariffed rate does not currently exist. Absent the flexibility to negotiate special contracts and submit such contract to the Authority for approval, Tennessee American is faced with potential forfeiture of its ability to generate additional revenues that inure to the benefit of its ratepayers. Each special contract is evaluated on its own merits, given the circumstances existing at the time of consideration. Notwithstanding our actions here, Tennessee American has the continuing responsibility to acknowledge when new customer classes emerge and amend its existing tariff accordingly.

tariff customers. The Agreement also requires Signal Mountain to maintain storage capacity equal to one (1) day's water supply, which allows the Company to provide water to Signal Mountain during non-peak periods, thereby avoiding higher on-peak operating costs.

6. The use of a special contract in dealing with large-usage customers such as Signal Mountain provides greater flexibility to the Tennessee American than is available under its tariff. The unique terms and conditions of the Agreement and the Extension, which differ from Tennessee American's tariff, are in the public interest. These terms and conditions benefit Tennessee American and its ratepayers by providing the Company a long-term source of revenue and by helping control the Company's production costs during peak usage periods. Use of a special contract allows Tennessee American to attract Signal Mountain and other large-use customers and collect additional revenues to the benefit of Tennessee American and its ratepayers without the burden of undergoing a full-scale rate review in order to revise its tariff. In addition, the Agreement provides Signal Mountain and its residents with a dependable supply of water at fair and affordable prices.<sup>2</sup>

7. No party has petitioned for intervention in this matter or objected to the Authority's approval of the Extension.

8. After careful review of the Application and of the entire record in this matter, the Directors find that approval of the Extension is appropriate pursuant to Authority Rule 1220-4-1-.07.

Based on the foregoing findings and conclusions, the Directors voted unanimously at the December 5, 2000 Authority Conference to approve the Extension of the water purchase agreement.

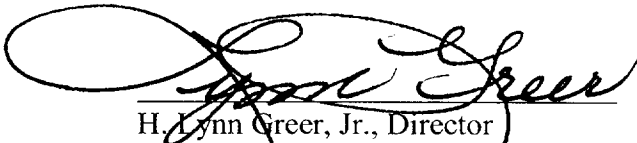
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<sup>2</sup> In response to an Authority Data Request, Signal Mountain stated that it was "very satisfied with Tennessee American Water Company." Letter from Hershel Dick, Town Manager, Town of Signal Mountain, to Michael Horne, Chief, Energy and Water Division, Tennessee Regulatory Authority, October 6, 2000.

**IT IS THEREFORE ORDERED THAT:**

1. The Extension of the Water Purchase Agreement between Tennessee American Water Company and the Town of Signal Mountain, Tennessee, is approved.

  
Sara Kyle, Chairman

  
H. Lynn Greer, Jr., Director

  
Melvin J. Malone, Director

ATTEST:

  
K. David Waddell, Executive Secretary